Manufacturing Snapshot

19 January 2017

Happy Last Year

New Zealand's Performance of Manufacturing Index (PMI) finished 2016 at 54.5, so no change between November and December. The final two months weren't quite as strong as the rest of the year (not due to earthquakes, it would seem, as, regionally, Central NZ has shown the largest annual increase). The PMI still finished off the year above its long term average of 53.2. It caps off a positive year for the manufacturing sector where the PMI averaged 56.0. Indeed, since the survey started in 2002, last year's average has only been surpassed by 2004's 57.5. The positive sentiment is supported by the latest Quarterly Survey of Business Opinion (QSBO) where most key manufacturing indicators were above long-term averages (and even more so for the economy wide indicators).

Some Warnings

The PMI and QSBO both suggest manufacturers enjoyed reasonable growth, particular in production, in the final quarter of 2016. But some details raise a warning. PMI new orders fell to 52.6 in December. Sure, it is still indicating growth (being above 50), but it is the lowest level of new orders for nearly two years. This is worth watching as an indicator of sales growth ahead. The industry's new orders also slowed a bit in the QSBO. The other potential warning came from large firms where their PMI slumped to 44.9 in December. We reserve judgement on this, as we have seen such moves before, for it to only bounce back the very next month. In all this, we note that December/January data is more difficult to trust as an indicator of trend given the holiday period.

Happy New Year

A reason not to be too alarmed by softer new order indicators is manufacturers' overall upbeat outlook. Manufacturers in the QSBO are more confident. A net 23% expect better economic conditions over the coming six months. This compares to a net 4% expecting improvement in the previous survey. It's a decent lift and sets confidence well above long-term norms, of -6.

Supply and Demand

Also above norms are indicators of manufacturers' resource tightness. For example, manufacturers' difficulty in finding appropriate staff has become even more acute while capacity utilisation, at 92.3%, is above its long term average, of 90.4%. It's indicative of the economy at large. We expect solid economic growth ahead, albeit with some slowing in the second half of 2017 and into 2018. It is important, if indeed that occurs, whether slower growth is a function of capacity constraints or weakening demand given the different implications for unemployment, inflation and interest rates. For manufacturers, at least, the PMI and QSBO results only add to the debate offering something on both sides.

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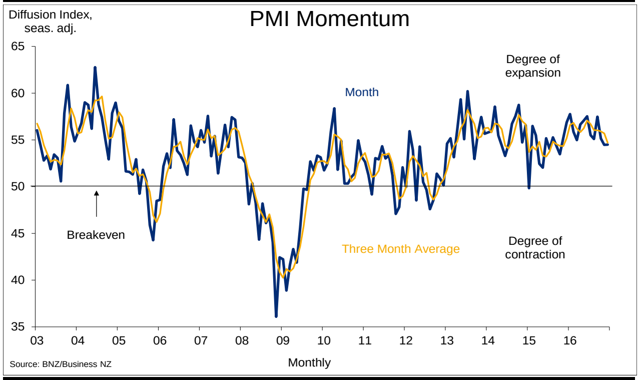
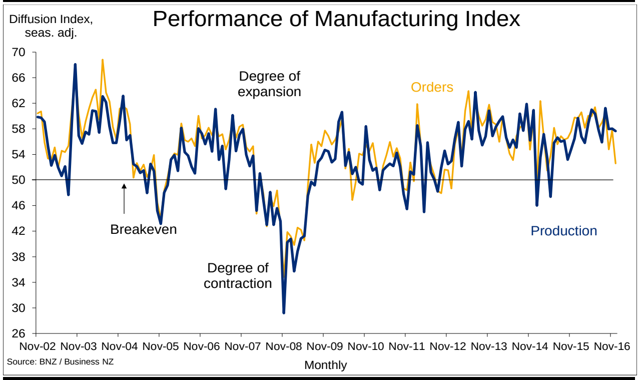
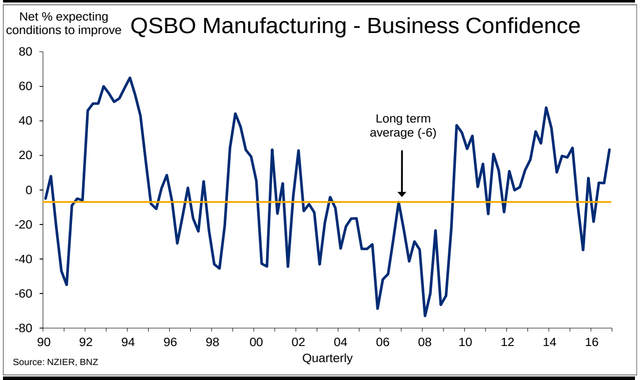
PMI Still Above Average



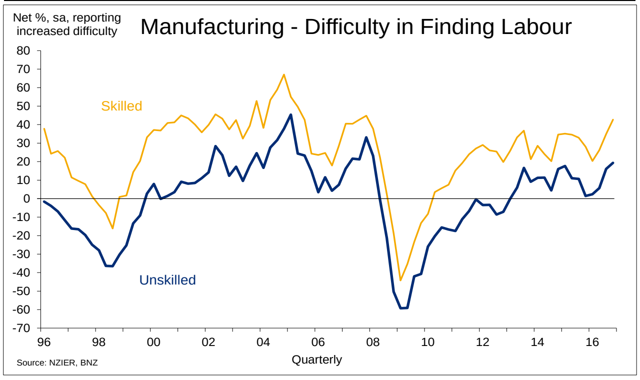
New Warning



But Manufacturers' More Confident



Labour More Difficult To Find



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